



*Research Report*

# Public Policy Towards the Elderly in Indonesia: Current Policy and Future Directions

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# Public Policy Towards the Elderly in Indonesia: Current Policy and Future Directions

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## **ABSTRACT**

In the past few years, public policy towards the elderly has become an emerging policy issue for Indonesia. With one-third of all Indonesians predicted to be elderly (i.e. aged 60 years or older) in the year 2050, millions of citizens are vulnerable to old age poverty, since many of them will have little extra income (e.g. from savings or pension) to finance their livelihood in old age. At the same time, they will no longer be able to depend exclusively on assistance from their children/other family members as in the past, since the birthrate is declining and family relations are becoming more strained due to continued modernization and social change occurring in the country.

Thus, it is increasingly recognized that a more formal and comprehensive old age security policy is needed in Indonesia. This paper will review the development of such a policy, looking at both past and current policies, and will critically analyze their impact in providing adequate old age security for Indonesians. Finally, the paper will conclude with some recommendations on what Indonesia could do to create a comprehensive aging policy that would protect its elderly population from old age insecurity in the coming decades.

**Keywords:** aging, public policy, social security, Indonesia.

# INTRODUCTION

In the past, old age policy has not been a major priority for the Indonesian Government, due to the fact that the number of elderly Indonesians (those who are 60 years of age or older) only represented a small percentage of Indonesia's population. The government focused most of its priorities on younger Indonesians of working age in order to assist them in gaining employment. Responsibility for the care of the elderly largely fell to their families, since it was assumed that productive citizens would take care of their aged and infirm parents. Very few government resources were allocated to assist elderly Indonesians, especially those who are poor and/or have no immediate family members to assist them.

Since the late 1990s however, changes have begun to occur in the way the Indonesian Government views the problem of aging and old age security. This is due to the fact that demographic projections have predicted that the number of elderly Indonesians will increase significantly in the next few decades. In addition, due to changes in family structure and economic conditions, it will become increasingly difficult for families to care for elderly relatives by themselves, leaving many elderly Indonesians vulnerable to poverty or at risk of falling below the poverty line.

Thus, aging will increasingly become a policy issue needing the attention of the government. Several new laws have been passed which aim to ensure that elderly Indonesians receive adequate support for their livelihood in their old age. Questions remain, however, on whether the approach taken by this legislation is the best way to address the aging problem in Indonesia and its policy implications.

This paper will describe the problem of aging in Indonesia and the development of aging policy in the country, looking at both past and current legislation. Part I will describe the demographic trends on aging in Indonesia, while Part II will outline their possible policy implications. Part III will describe current developments in Indonesia's aging policy, primarily by looking at past and current legislation enacted by the Indonesian Government related to aging. The analysis will focus on the newly enacted national social security law that is aimed at protecting elderly Indonesians from old age insecurity. Finally, Part IV will suggest some future directions for aging policy in Indonesia and review possible policy alternatives directed at addressing this problem.

## I. DEMOGRAPHIC AGING TRENDS IN INDONESIA

For more than three decades, Indonesia has made significant progress in its economic and human development. This has resulted in better health conditions for Indonesians and longer life expectancy. The country's life expectancy has increased dramatically during the last three decades, from 45 in 1970 to 66 in 2004 (UNDP, 2003). Consequently, the number of Indonesians aged 60 years and older has increased from 4.48% of the population in 1971 to 7.97% of the population in 2000 (ADB, 2004:47).

During the past three decades, Indonesia has also successfully implemented the family planning (*keluarga berencana*) program, which has reduced the number of children born into a typical Indonesian family. While, in the early 1950s, the average Indonesian family consisted of six children and their parents, in the 1990s the typical Indonesian family consisted of approximately 2.5 children and their parents (United Nations, 1999). While family planning has been credited with helping to reduce poverty among Indonesian families (by reducing the cost for parents of raising their children), it also creates adverse consequences for them when those parents have grown older, as will be outlined in the next section.

At the same time that the birthrate has declined, the number of older Indonesians has increased at a rapid rate. It is estimated that by the year 2020, elderly Indonesians over 60 years old will reach about 11.34% of the population (ADB, 2004:47). This trend will continue for the foreseeable future. It is estimated that in the year 2050, about one-third of all Indonesians will be aged 55 years old or older and about 20% will be aged 65 years or older (ILO, 2003).

Most of Indonesia's elderly population lives in rural rather than in urban areas (9.97 million vs. 7.79 million) (ADB, 2004: 47). Rural districts tend to age faster compared with urban districts. Estimates show however, that due to the urbanization process, most elderly Indonesians will eventually live in urban areas (Arifin and Ananta, 2004: 5-7). While in 2005, the ratio of rural vs. urban elderly was 2.3 times, in 2003 the ratio was reduced to 1.7 and by 2020, the number of urban elderly will surpass the rural elderly (ADB, 2004: 47-48). At the same time, the number of elderly women aged 65 years and older is about 4.7 million, while the number of elderly men is about 4.1 million (Arifin and Ananta, 2004: 8).

If we look at the elderly population at the provincial level, the oldest provinces are Yogyakarta, Central Java, East Java, Bali and West Sumatra (ibid: 4-5). The province with the largest elderly population is Yogyakarta, with 8.48% of its population aged 65 years and older in 2000. This could be attributed to the combination of a relatively low fertility rate and high rate of out-migration from this province (ibid: 5). Kabupaten Gunung Kidul in Yogyakarta has the largest elderly population among the more than 400 *kota/kabupaten* in Indonesia, in 2000 10.49% of its population was 65 years of age or older (ibid: 5).

It is estimated that about half of all Indonesia's elderly are still active in the labor force, mostly in the informal sector/agriculture (Koesobjono and Sarwono, 2003: 391). Unfortunately, most of these elderly have difficulty in supporting themselves, with an average income of Rp 500,000 (about USD 55) per annum in 1999 (Hatmadji et al, 1999: 48). Because of their lack of earnings, a large number of them (about 45%) have to rely on family support, while 31.5% are self-employed. Their only asset is often their house or land (Hatmadji and Pardede, 1999).



## II. POSSIBLE IMPLICATIONS OF POPULATION AGING IN INDONESIA

The rapid aging of Indonesia's population within the next two to three decades will no doubt create various public policy implications for the country. First of all, there will be a greater demand for old age income support schemes as more Indonesians are getting older and eventually, as their health deteriorates, they will have to leave the labor force. To receive an adequate income after retirement, the elderly will have to accumulate enough savings during their time in the labor force, or receive income support from external sources (their family, the government or private foundations/charities). Given the earlier suggestion that the income of many elderly Indonesians is not sufficient to support themselves after retirement, many of them will have to rely on these secondary income sources.

The increased number of elderly in the country's population will also result in an increased demand for medical care and services for this sector of the population. The experience of other countries with populations that are already aged shows that while people are living longer, health expenditures tend to increase at the same time, since as they grow older, they will spend more on various health-related services such as medicine, hospitalization and nursing home care. As a result, health expenditures as a percentage of the Gross National Product (GNP) could be expected to increase as well. In developed countries (such as Western Europe and North America) where the aging phenomena is currently most prevalent, health expenditures accounted for 9.2% of GNP in 1990, compared with 4.7% in developing countries and 8.1% for the whole world (World Bank, 52).

In the past, elderly Indonesians could rely on the support of their extended families, both as caregivers at the time they experience health problems and also as providers of supplemental financial support. Unfortunately, the rapid aging of Indonesia's population is occurring at the same time as the country is undergoing rapid modernization as well as recovering from the impact of the 1997/98 Asian financial crisis.

Modernization has brought many changes that impact on the family support system in Indonesia. A national family planning program has succeeded in significantly reducing Indonesia's birthrate. While this policy has resulted in reduced family expenditures for the support of children, it also means that elderly Indonesians will be supported by fewer children when they are entering old age. This, of course, could reduce the amount of support they will receive from their children in old age.

Among other changes in the family brought about by modernization is the likelihood that younger family members who are still in the labor force will migrate to bigger cities, where it is perceived that most jobs are located, or even to other countries. While they might be able to earn better wages in the city or another country, younger family members will be living further from their elderly parents. As a result, there is less likelihood that children will be able to fulfil a role as their parents' caregivers in times of need (Hugo, 1996: 17).

Consequently, support for elderly Indonesians is increasingly shifting from personal care, in which the elderly receive direct emotional and physical care from their own family members, to a more impersonal and financially-oriented system of care, in which assistance is given in the form of cash or through hired assistants (nurses, domestic helpers, etc.) rather than provided directly by their children/immediate families (Koesbijono and Sarwono, 2003: 394). Thus, while the elderly might enjoy adequate financial support, they might lack the personal care and attention that could only be provided by their families.

Even when their families are caring for them, the elderly often do not get the care that they need from their family members. Families of the elderly often do not get professional training or consultation on how to provide appropriate care. More often, they have to take this responsibility suddenly without any warning (i.e. when the elderly suffer from serious illnesses that render him/her disabled/incapacitated). As a result, the quality of care the elderly receive from their family members is often poor. In order to assist family members to care for aged relatives they need information on a number of matters including nutritional and dietary matters, hygienic and sanitary measures, use of rehabilitation tools and appropriate medication (van Eeuwijk, 2004: 11).

As a result of these shortcomings, the Indonesian elderly increasingly have to turn to third-party institutions for their care. These services could come from the government or the private sector, both for-profit and not-for-profit (e.g. nursing homes and hospitals/clinics). Unfortunately, resources provided for the elderly by these institutions are also limited. Only about 10% of all Indonesians (both workers and their spouses) have some form of pension coverage,<sup>1</sup> while only 15% of Indonesians are currently covered by some form of health insurance scheme provided by either the public or the private sector<sup>2</sup> (ILO, 2003). Additionally, it is virtually impossible for those aged 65 years and over to receive health insurance coverage, even though this age group is more vulnerable to more serious medical problems (ibid: 193). Finally, social welfare spending for elderly Indonesians still receives a low priority in the government's budget. In the 2004 state budget, the government only allocated Rp.21.5 billion (USD 236,000) for such services (ADB, 2004: 99), an amount which is far from sufficient in meeting the needs of elderly Indonesians.

Elderly Indonesians also have more difficulty accessing charities that offer assistance to people in need, since these charities often prefer to allocate their scarce resources to help orphaned and poor children (Hugo, 1996: 17). In addition, most elderly Indonesians are still unwilling to enter nursing homes. A study found that while half of the elderly believe that a nursing home could be an important facility for their old age needs, only 15% of them indicated that they would be willing to live in such an institution (ibid: 18). Those who choose to live in one have found however, that

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<sup>1</sup>Workers who have pension coverage tend to be civil servants (covered by the *Taspen* scheme) or those working with state-owned enterprises and large companies (ILO, 2003). In addition, some private sector workers also contribute to the compulsory old age savings scheme (*Jamsostek*).

<sup>2</sup>Specifically, 10% are covered by a public health insurance scheme (*Askes* for civil servants), *Jamsostek* for private formal sector workers, and community health maintenance schemes (JPKM). 5% have private health insurance coverage (ILO, 2003).

their economic circumstances and happiness improved after moving into a nursing home, and they generally felt satisfied about their welfare (Niehof, 1995: 432).

In conclusion, the state of Indonesia's elderly population is clearly at a crossroad. Since their number is increasing rapidly, there will be greater demands from this group for both old age income support schemes and health care. Unfortunately, the traditional family support systems that these elderly tend to rely on are becoming increasingly strained due to the fact that Indonesian family size continues to decline and also due to other changes resulting from modernization (e.g. out-migration to cities/other countries and more formalized family relations based on financial rather than personal needs). At the same time, third-party infrastructure available to support elderly Indonesians is still underdeveloped, given the lack of available schemes provided by both the government and the private sector to support the needs of the elderly population.

It is clear that a comprehensive aging policy is needed in Indonesia. Exactly how this policy should be framed will be explored in the next two sections.

### III. PAST AND CURRENT AGING POLICIES IN INDONESIA

To review past and current aging policy in Indonesia, each piece of legislation (*Undang-Undang*) passed by the Indonesian Government and Indonesian Parliament (DPR) related to social policy toward elderly Indonesians and social welfare in general was scrutinized and analyzed.<sup>3</sup> Several pieces of legislation were included in this analysis, including The Social Assistance for the Elderly Law of 1965, The Social Welfare Law of 1974, The Workers' Social Security Law of 1992, The Old Age Welfare Law of 1998, and the National Social Security System Law of 2004. The details of this legislation is as follows:

#### A. The Social Assistance for the Elderly Law of 1965 (Law No. 4/1965)

This legislation was the first attempt by the Indonesian Government to provide some form of public assistance for elderly Indonesians. It defines the elderly as: "each individual who, due to their old age, is unable to work and does not have adequate resources to support their livelihood" (GOI, 1965: section 1). The assistance authorized by this law included cash subsidies and health/long-term care assistance. This could be channelled through government institutions, private institutions or individuals (*ibid*: section 2 and 3). The Ministry of Social Affairs is authorized to regulate and enforce this law (*ibid*: section 4). Private institutions and individuals interested in providing assistance to the elderly must register themselves with the Ministry of Social Affairs and provide updates to the Ministry if there are changes in their legal status (*ibid*: section 7 and 11). The Ministry has the right to revoke government assistance given to a private institution/individual if it finds that they are not complying with the relevant regulations established by the Ministry (*ibid*: section 10).

This law was quite progressive in offering old age assistance to the elderly, especially given that it was written in the 1960s when a smaller portion of Indonesia's population was classified as elderly. Due to the change of Administration from President Sukarno to General Suharto in March 1966 (i.e. less than a year after its enactment), the law was never fully enforced and carried out by the New Order Government. It remained on the statute books however, until it was repealed more than three decades later by The Old Age Welfare Law of 1998.

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<sup>3</sup>In this analysis, we only look at the legislation in the form of laws that have been enacted by the government. Other legislation, such as government regulation (*Peraturan Pemerintah*), Presidential Decree (*Keputusan Presiden*), and Ministerial Decree (*Keputusan Menteri*) were not included in this analysis.

## **B. The Social Welfare Law of 1974 (Law No. 6/1974) and The Workers' Social Security Law of 1992 (Law No. 3/1992)**

The Social Welfare Law of 1974 stipulates that each Indonesian citizen has a right to a decent standard of social welfare and the responsibility to participate in various social welfare activities (GOI, 1974: section 1). It further stipulates that the Indonesian Government has the right to create and operate the following programs: 1) social assistance programs; 2) social security system; 3) guidance, mentoring, and social rehabilitation activities for disadvantaged citizens; and 4) social education and development activities (ibid: section 4, subsection 1). It then states that the government would establish a national social security system, which would be detailed in separate legislation (ibid: section 5). In addition, community members are authorized to engage in social welfare activities in the form of establishing foundations or other not-for-profit legal entities, which would be regulated by separate legislation (ibid: section 8 and 9).

It would not be until almost two decades later however, that the government started to enact separate legislation that would spell out in more detail the various social welfare activities stipulated by this legislation. These included the Law No. 3/1992 on workers' Social Security (*UU Jamsostek*), which created several social security benefits for workers: 1) worker injury benefits; 2) death benefits; 3) retirement benefits; and 4) healthcare benefits. To participate, each employer has to make a contribution of between 7.24 and 11.24% of the total wages paid to their workers. This amount is equal to about one month of a worker's annual salary. In addition, workers have to contribute 2% of their wages to the retirement benefits program (Arifianto, 2004: 7). Workers' retirement funds are invested in a provident fund managed entirely by a state-owned company, PT Jamsostek.

While, theoretically, this law applies to all Indonesian workers, regardless of whether they work in the formal or informal sector; in practice only some formal sector workers were covered by this scheme, specifically, those that work in medium and large-sized enterprises (those that employed more than 10 employees). This means that the vast majority of Indonesian workers (80% of the total workforce) are not covered by this scheme (ibid: 8). In addition, it is also estimated that only about half of the employers required by the Indonesian Social Security Law to make contributions to the scheme are actually making contributions (ILO, 2003: 63). Thus, the number of workers that are actually covered by the *Jamsostek* program is much lower than what was stipulated by the law.

Additionally, *Jamsostek* does not create adequate incentives for its members to save for retirement because the benefits received by those who make contributions to *Jamsostek* are very small. A World Bank study done by Leechor (1996) estimated that the total pension payments received by a *Jamsostek* recipient at retirement is only valued at about 7% of their final basic salary after 35 years of active work, while another study conducted by the International Labour Organization (ILO) found that the average value of a *Jamsostek* pension only amounts to five and a half months of their basic salary or eight and a half months of the current minimum wage (UMR) (ILO, 2003: 90). It has been concluded that these workers would earn a better rate of

return on their investments if they put their retirement savings into a bank account rather than the *Jamsostek* scheme.

In addition, the rate of return on investments in the *Jamsostek* fund is also very low. The ILO found that income from such investments is valued cumulatively at 38% below the level of inflation and 63% less than the average market rate (ILO, 2003: 94). This is caused by the fact that the *Jamsostek* fund is invested mostly in banks – 80% in 1997 and 86% in June 1999 (Perwira et al., 2003). While such an investment is considered relatively safe, in the long run, it earns less than other investment schemes, such as those invested in stocks, bonds and mutual funds.

Finally, critics have argued that the management of the *Jamsostek* fund has not been open and transparent. For instance, it has been found that PT *Jamsostek* as the sole provider of publicly-funded retirement benefits in Indonesia has failed to provide financial statements and regular progress reports that can be accessed by workers participating in the scheme and the general public (Leechor, 1996: 39).

We can conclude that due to the above weaknesses, the 1974 and 1992 social welfare legislation were not successful in their aims to provide social security protection for Indonesians, specifically the elderly. Recognizing this flaw, the Indonesian Government has decided to develop a more comprehensive social security law and the legislation was debated and enacted during the 2003/2004 legislative year. An analysis of this law will be detailed later in this section.

### **C. The Old Age Welfare Law of 1998 (Law No. 13/1998)**

In 1998, when the Suharto Government collapsed in the aftermath of the 1997/98 Asian financial crisis, the caretaker government of President B.J. Habibie decided to revise and rewrite various laws that had been enacted by his predecessors. Among the laws that were subjected to this revision was The Social Assistance for the Elderly Law of 1965. It was repealed and replaced by The Old Age Welfare Law of 1998.

This law stipulates that elderly Indonesians have the same rights as any other citizens (GOI, 1998: section 5, subsection 1). They are entitled to various public services, including: 1) religion/spiritual service; 2) health care service; 3) employment service; 4) education and training service; 5) special privileges when using public utilities and legal services; and 6) access to social protection (for “infirm” elderly) and social assistance (for “able-bodied” elderly) schemes (ibid: section 5, subsection 2). Unlike earlier laws, the law also stipulates that the responsibility for the improvement of the elderly citizens’ welfare should be shared by the government, the community and the families of elderly citizens themselves (ibid: section 8). Finally, community members are authorized to engage in activities to improve the welfare of the elderly (ibid: section 22 and 23).

The new law seems to have broadened the number of public services available for the elderly significantly, not just providing social assistance schemes as the 1965 law stipulates, but also other services listed above. It also categorized the elderly into two groups: 1) able-bodied elderly, who are defined as those who are still able to work or

produce goods and services, and 2) infirm elderly, who are defined as those who are no longer able to work and are entirely dependent on assistance from another person/institution (ibid: section 1, subsection 3 and 4). Thus, this law seems to recognize that the elderly are not a homogenous group, some are more likely to have an active and healthy life than others. The bill however, lacks the specific programs and services that would be geared towards improving the welfare of the elderly, stating that they would be defined in separate legislation. Thus, the exact programs available to improve the welfare of elderly Indonesians remains in doubt.

To complement this bill, the government has created a five-year *National Strategy to Improve the Welfare of the Elderly*, starting in the year 2003. The strategy was created by the Office of the Coordinating Ministry of Social Welfare (*Menko Kesra*) and it is aimed at enhancing coordination between various governmental institutions, community, private sector, civil society organizations, and organizations representing elderly Indonesians, in order to create a national strategy that would incorporate the role of elderly Indonesians in the country's development and to build the support of the family and society for improving the welfare of the elderly (The Yogyakarta Special Province, 2003).

To support this national strategy, President Megawati Soekarnoputri issued Presidential Decree (*Keppres*) No. 52/2004 on the Creation of the National Committee on Aging. This committee is mandated to assist the President to coordinate the implementation of the *National Strategy to Improve the Welfare of the Elderly* and to provide professional advice to the President on the creation of the government's social policy towards the elderly (GOI, 2004a: section 3, subsection 1). It specifies that the committee will consist of twenty-five members, with representatives from various government agencies, civil society organizations working on the issue of old age welfare, universities, and the private sector (ibid: sections 4 to 7). In addition to the National Committee on Aging, provincial and *kota/kabupaten* governments in Indonesia can also create their own committee on aging, which would coordinate with the national committee in their respective duties (ibid: section 20 and 21).

It is hoped that these new initiatives would encourage the development of a comprehensive policy toward the aged in Indonesia. Since these initiatives are still in the early stages however, it remains to be seen whether these initiatives would be successful in their aim to create such a policy.

#### **D. The National Social Security System Law of 2004 (UU SJSN/Jamsosnas)**

The most recent legislation related to public policy toward the elderly in Indonesia is The National Social Security System Law of 2004, which was enacted on September 28, 2004. Among key features of the new law is that it mandates the creation of several social security schemes for citizens: old age pension, old age savings, national health insurance, work-injury insurance, and death benefits (GOI, 2004b: section 18).

The law also mandates that, within the next decade or so, social security coverage should be expanded to cover all citizens, including the informal sector, the unemployed and the poor (Arifianto, 2004:16). These schemes would be largely financed by payroll taxes imposed on employers and workers, mostly in the formal sector. In addition, the government will subsidize the contributions of the poorest citizens (ibid: 20).

Specifically related to the old age income security issues, there are two programs that are created by the new law, which are: the old age pension program and the old age savings program. The old age pension program is a defined-benefit social insurance program,<sup>4</sup> and it will presumably operate as a partially funded pay-as-you-go scheme.<sup>5</sup> As stipulated in the draft law, this program will only accumulate social security contributions for the first 15 years, and will only start paying pension benefits to retirees after this (GOI, 2004a: section 41).

This old age pension scheme has similar features to the publicly-run pension programs established in most developed countries in Western Europe and North America. The program will be further divided into four components: old age pensions, disability pensions, widow/widower pensions, and child pensions, (ibid: section 41).

The defined benefit of the old age pension should normally be a percentage of the average income from the previous year. The fixed minimum pension under the proposed plan has been set at 70% of the minimum wage. The same benefit level also applies to the disability pension program. Widows/widowers and children will receive a minimum pension of between 40% and 60% of the local minimum wage (GOI, 2003: 59-60). Widows/widowers will continue to receive pension benefits until they die, remarry, or start working full-time. Children will continue to receive pension benefits until they marry, start working full-time, or reach 23 years of age, whichever comes first (GOI 2004a: section 41).

The retirement age is currently set at 55, and a worker who has contributed to the scheme for at least fifteen years will be entitled to receive full pension benefits from the program. These workers or their heirs, if a worker dies before reaching retirement age, will receive monthly pension payments. Workers who retire before reaching the

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<sup>4</sup>A *defined benefit scheme* is a retirement plan in which workers are guaranteed a benefit upon retirement, usually based on years of service, age, and final or lifetime earnings. The government/employers are responsible for funding the plan's promised benefits and are liable for the risks associated with the scheme. An alternative is the *defined contribution scheme*, that is a retirement plan in which only the contribution rates and bases of benefits calculations are determined in advance (not the benefit level). The benefit is a direct product of the contributions paid to the investment accounts, plus the return on investments from these accounts. The risks, though not the control, of this pension scheme rest with the workers (ILO, 2003: xxii, Weller, 2002: 3-4).

<sup>5</sup>A *pay-as-you-go* system is a social security system in which no funds are set aside in advance and benefits for current retirees plus administrative costs are paid out of the current workers' contributions (ILO, 2003: xxii). A *partially funded pay-as-you-go* scheme means that the system is partially financed in advance to create a reserve fund for future use by retirees but does not pay contributions at the present. After the system matures, it would start paying out pension obligations to retirees and then it could continue as a full pay-as-you-go scheme.



fifteen years' contribution requirement above, will be entitled to receive the accumulated amount of their pension contributions, plus the investment returns, in a lump sum. They will not however, be eligible to receive a monthly pension (ibid: section 41).

On the other hand, the old age savings program is a retirement program in which participants will be entitled to receive benefits before or upon reaching retirement age and, in the event of the death of a participant, his or her spouse, children, or official heirs will be entitled to receive benefits. It will be a compulsory savings program. Thus, it will be similar to the compulsory savings scheme created by the Workers' Social Security Law of 1992. It is a fully-funded, defined contribution pension program.

The benefits of this pension plan will be provided as a lump-sum payment if a worker dies, becomes permanently disabled, or retires. If a worker dies or becomes permanently disabled, benefits will go to their heirs (spouses and children under the age of 23). The total amount of program benefits received by members is the entire amount of their contribution accumulated over the years plus the investment returns on their contribution. At the earliest, workers may start withdrawing money from their account five years before they reach retirement age. They may even use a portion of the money saved in their account as a loan after they have made contributions for a given period of time, the details of which will be stipulated in a future government regulation (ibid: section 37).

For both of the above programs, each member must contribute either a percentage of their income (formal workers) or a flat-rate amount (informal and self-employed workers) to this savings program. Contributions from formal workers will be split equally between themselves and their employers. The National Social Security Provider Agency will be required to provide an annual report to each worker on his or her accumulated contributions and investment returns. Exactly how the government plans to invest the funds collected by this scheme will be stipulated in a future government regulation (ibid: sections 38 and 42).

Despite the government's best intention to create the above schemes, many stakeholders, including employers' associations, labor unions, insurance companies and independent experts have raised a number of issues about the social security schemes created by this new law.

First, there is a high probability of the program running into deficit, because it will offer very generous pension benefits, with a minimum benefit of 70% of the local minimum wage. Since many Indonesian workers, especially those who work in the informal sector, have earnings below the local minimum wage, many of them will receive this guaranteed benefit. Due to the substantial liability, the possibility of serious financial problems in this pension scheme in the future is quite high.

Secondly, the government's plan to subsidize the coverage of low-income persons is also questionable. According to the draft law, Indonesians whose income falls below

the regional minimum wage (UMR)<sup>6</sup> will be considered as "low-income" earners and therefore will be eligible to receive a government subsidy to help cover their pension contribution. There are however, a substantial number of Indonesians who earn less than the UMR, especially those who work in the informal sector or are not permanently employed. This could put significant financial strain on the government budget. If this issue is not addressed, it could become another factor that could endanger the long-term sustainability of this program.

Thirdly the combination of a relatively young retirement age (55 years), low number of working years to qualify for pensions (15 years) and a rapidly aging population, is a recipe for disaster for any public pension program, and it seems that this proposed scheme will suffer from such a fate and become financially unsustainable. Attempts to correct the problem such as raising contributions and cutting pension benefits are only temporary fixes that will make the program less attractive to participants. Eventually, the pension scheme could suffer from a default, which would place significant financial liabilities on the government and employers as well as result in a significant loss of retirement income for workers.

Fourthly, it is estimated that the impact of the proposed *Jamsosnas* old age pension scheme on the current Indonesian elderly population would be minimal. Since the system is a partially funded pay-as-you-go scheme, unless they make contributions, the current retirees will not benefit at all. Although it is the current poor retirees that need *Jamsosnas* old age pension scheme the most, they do not have the financial resources to contribute to the scheme.

People who retire between when the *Jamsosnas* pension scheme takes effect and when it starts paying pensions (about fifteen years after its establishment according to the draft law) also will not benefit from the *Jamsosnas* pension scheme. As stipulated in the draft law, they will not be eligible to receive a pension. They will only receive the money accumulated in their old age savings accounts (contribution plus investment earnings).<sup>7</sup> In general however, only those who retire fifteen years after the *Jamsosnas* pension scheme has been in place and have made regular contributions to the scheme will receive pension benefits.

Thus, unlike what has been claimed by the proponents of the *Jamsosnas* bill, the *Jamsosnas* pension scheme will not be very helpful for current retirees who do not have the resources to contribute to the scheme. This group is however, still vulnerable to old age poverty, if not more so compared with future retirees who will have participated in the *Jamsosnas* pension scheme. Consequently, the government might have to establish a separate pension or income support scheme for this group.

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<sup>6</sup>The minimum wage in Indonesia is decided not at the national level, but at provincial and sometimes at *kota/kabupaten* level. The minimum wage is commonly called the Regional Minimum Wage (*Upah Minimum Regional-UMR*).

<sup>7</sup>The only exception is when a worker dies before reaching retirement age or has contributed to the *Jamsosnas* pension scheme for fifteen years. In these cases, their heirs (surviving spouse and children) will continue to receive their pension benefits until they die or start working full-time (or for the children, when they reach 23 years of age) (GOI, 2004b: section 41, subsection (4) and (6)).

Finally, the government's proposal disregards the role of competition in providing social security benefits to Indonesians, as, according to the bill, the government will be solely responsible for social security provision, in spite of the fact that most formal sector workers already obtain adequate health and retirement benefits from their employers. The government alone will continue to make decisions on how the fund is managed, invested and distributed among beneficiaries, while workers themselves will not be allowed to participate in the decision-making relating to the trust fund, even though it is actually their own money and most Indonesian workers have little confidence in publicly-run social security schemes. These facts indicate that it is not a good idea for the government to regulate as well as operate the national social security scheme. These functions need to be separated in order to have a truly functional social security system that is beneficial for workers.

In conclusion, while the new social security law is the first step in providing adequate social security benefits for all Indonesians (especially the elderly), it needs to be amended further, so that the schemes proposed by the law are more transparent and financially sustainable. If this law is revised, the views of all stakeholders involved should be taken into account and incorporated into the amended law, including their demands for a more accountable, affordable, sustainable and competitive social security system.

## IV. FUTURE POLICY DIRECTIONS FOR AGING POLICY IN INDONESIA

From our analysis of the draft of legislation related to aging and old age security in Indonesia, we can make a number of observations. First, as the number of elderly Indonesians grows, aging policy increasingly becomes more important in the country's policy and legislative agenda. Second, there is an increasing recognition on the government's part that caring for the elderly should not be the sole responsibility of the government, but also of the community, the private sector and most importantly, the elderly and their families themselves. Indonesia's ongoing transition that commenced in 1998 from an authoritarian to a democratic state also means that voices from civil society organizations (including those representing the elderly) can no longer be ignored by the government and their views need to be incorporated into the government's policy agenda.

Unfortunately, the new social security law reverses this approach of shared responsibility somewhat, by putting the government in charge of the proposed social security programs and treating everybody else simply as contributors to the social security scheme or as beneficiaries when it is time for them to start collecting benefits. This state-centered approach not only excludes other stakeholders from playing important roles in providing social security for the elderly, but is also questionable in light of the Indonesian Government's weak capacity to implement its programs due to serious governance problems. These are evident from its implementation of the *Jamsostek* scheme and other social security programs in the past.

In light of these facts, what then is an appropriate aging policy for Indonesia? While this will continue to be the subject of debate, this report presents a number of possible options to be considered in the development of the country's aging policy.

First of all, it has to be recognized that aging policy should be dynamic and easily adaptable to new conditions, such as changing demographics, improvements in medical care, the availability of resources to fund old age security provisions, and so forth. No policy should be set in stone, doing so would be a mistake since it could lead to possible long-term repercussions for the country. We should learn as much as possible from other countries that have already encountered a changing age demographic.

Secondly, we have also recognized that most of the care and resources provided for the elderly in Indonesia primarily comes from their own families and most Indonesian elderly prefer to receive care from their own family members. Thus, there should be incentives to ensure the long-term sustainability of these arrangements as the country continues its modernization. This might include efforts to create new employment for Indonesian workers, preferably in better-paying sectors, combined with efforts to attract new investors to the country that would generate such jobs. The country might also consider introducing tax incentives to induce families to care for their aged relatives and lessen some of the financial burden of these families. Finally, training should be provided for families of sick and infirm elderly, who suddenly have

to bear the burden of caring for them, so that they are able to provide appropriate and humane caring for their elderly relatives.

Thirdly, in regard to the creation of a national social security system that would largely benefit elderly Indonesians, it should be recognized that in most developing countries, a government monopoly in delivering social security programs and essential public services to poor and vulnerable citizens is no longer a workable model and in many cases such monopolistic provisions have failed to achieve their goals. Instead, social security program design and implementation should be a partnership between the government, the private sector, NGOs/civil society groups, and service customers (poor and vulnerable citizens). Different arrangements could be made to implement such partnerships (privatization, contracting out and schemes to increase clients/service customers' voices in decision-making processes).

For instance, this could be done by adopting a three-pillar approach<sup>8</sup> in providing for pension/retirement benefits for the poor, in which the government sponsors the first pillar in the form of a social safety net, providing a social safety net for the old, particularly the old whose lifetime income was low. The second pillar is a fully privately managed fund that handles peoples' mandatory retirement schemes and insurance – it links pension benefits to worker's contributions as in a defined contribution plan. The third is a voluntary pillar for people who want a higher standard of living in old age. The three-pillar approach in pension provision has been adopted by more than 30 countries, from both the developed and developing world, and at least 20 other countries are considering adopting it at this time (James, 2004). Thus, such an approach might be worth considering in Indonesia as it develops a more comprehensive old age security strategy for its elderly poor.

Fourthly, in regard to elderly health care, the government could use incentives to induce more citizens to purchase private health insurance. This could include a tax credit to help pay health insurance premiums or a medical savings account plan set up by private financial firms in which workers could save a portion of their salaries; any withdrawals made from this account for healthcare needs would not be subject to any taxes or fees.

The use of partnerships such as these in implementing social protection schemes would improve the effectiveness and outcomes of these programs, improving the service delivery of the programs to their constituents, and would increase citizen's support for, and confidence in, those programs. More such partnerships need to be built into social protection policy in this country.

It is, however, recognized that private individual retirement accounts by themselves would not be useful for those elderly people who are already reaching retirement age and have no means to contribute to the individual account schemes.<sup>9</sup> For this group, the government should pursue a special pension program to assist them in meeting their retirement expenses. The amount of assistance provided by this program would

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<sup>8</sup>For additional background on the three-pillar approach on pension reform, see World Bank (1994).

<sup>9</sup>For a recent comprehensive study on this topic, see Gill et al (2005).

meet the basic expenses of these elderly poor (e.g. food, utility bills, etc.) and also would provide emergency assistance when the elderly face chronic health problems. Such programs should ideally be financed through general tax revenues so that they do not create an additional burden for business and current workers (or to the elderly population themselves) through new taxes or fees. These special pension benefits for the poor could be given either as a means-tested pension scheme or as a universal flat benefit scheme.<sup>10</sup>

It should also be noted that successful implementation of any social security scheme, including those that support the elderly, requires active cooperation between the government and all non-governmental stakeholders involved in efforts to reduce poverty in Indonesia (civil society, NGOs, the private sector and the poor themselves). With a continuing partnership between the government and the private sector, civil society groups and representatives of poor citizens, it is hoped that social protection efforts can accomplish their intended goals optimally.

Finally, there needs to be capacity and financial building activities among the private sector (both for-profit and not-for-profit) and NGOs to increase their attention and support for elderly Indonesians. Resources to support elderly in need, both in cash and in kind, needs to be increased and better training is needed for the staff of these institutions so that their attention to the special needs of the elderly will be increased. The government could support this endeavor by granting tax exemptions and deductions for groups that receive charitable donations to support poor elderly persons who are unable to care for themselves.

### **Concluding Thoughts**

With a real partnership among all stakeholders, along with a firm political will to improve the living standards of all elderly Indonesians and a credible mechanism to ensure that all stakeholders follow through with the above commitments, it is hoped that Indonesia can successfully develop a comprehensive aging policy that is able to effectively and sustainably improve the welfare of all elderly Indonesians, both now and in the future.

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<sup>10</sup>For various case studies of countries that have adopted this pension scheme, see Help Age International (2004) and James (2004).

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